“Schaeffler India Limited Results Conference Call for Quarter-3 and Nine Months 2020 Results for the Period Ended September 30, 2020”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Schaeffler India Limited Results Conference Call for Quarter-3 and nine months 2020 results for the period ended September 30, 2020. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijay Chaudhury, Head of Communications and Investor Relations, Schaeffler India Limited. Thank you and over to you, Sir.

Vijay Chaudhury: Thank you. Ladies and Gentlemen, Welcome to the Results Call for Schaeffler India Limited. Today, we have with us Mr. Harsha Kadam, CEO, Schaeffler India and Mr. Satish Patel, Director of Finance and CFO, Schaeffler India. I how hand over the call to Mr. Kadam who will take you through a short presentation on the results and over to you Mr. Kadam.

Harsha Kadam: Thank you, Vijay, and Good Morning to you all Ladies and Gentlemen, a warm Welcome to you all to this investor call. I hope your families and dear ones are safe. I would like to now take you briefly through the presentation, which I am sure all of you are able to see. I am on Slide Number 2, which talks about today's agenda, I would give you a little bit of highlights on the key element on this quarter's performance. I would also touch upon a little information on our economy and the market, and moving on, I would also give you the performance for the third quarter and the nine-month ending of Schaeffler India for this year. I move to Slide Number 3 which is talking about the key highlights, I am happy to say that the market bounced back in a much better manner that we had anticipated and the demand across many sectors began to pick up, that is one of the biggest highlights we see coming out of the third quarter. Also the measures that we undertook to manage our overhead costs and the discipline we brought in has helped us to post pretty reasonable and a good EBIT margin of 12.6% in the third quarter of 2020 and this happens to be almost 51.7% higher and better than the first quarter 2020, which was the pre-lockdown period and the net margins, profit margins stood at 10.1%.

Moving on, we also registered a strong free cash flow and owing to this, liquidity position in the company too increased phenomenally when compared to a dismal second quarter that we went through on the back of the impact of the lockdown and stop of business activities for almost 60 days. Also we were able to be very agile and respond to our customers and during this period, we also took the initiative to launch another brand of Schaeffler in the automotive aftermarket and the brand is called, TruPower, I will cover that in my later slide and the first product that we have launched under this brand is lubricants and you will hear and see some more down the line. While the market has started to recover and show recovery in many of the sectors, we continue to manage the COVID-19 lockdown and the crisis post-lockdown. We are still having challenges in some of the plants where we have to continue to follow the strict safety protocols and at the same time ensure that we meet all our customer requirements and this is a very interesting challenge and Q3 was one of the quarters which really tested us for it.

I now move to the next slide which is Slide Number 5 and as you can see the economy which had contracted by the index of industrial production if you see IIP had contracted almost 57% by April with the lockdown and the production output of almost eight core sectors had shrunk down to 37% and it was the sharpest decline of the PMI as well going down to almost 27% between April and May, but with the steps that the Government has been consistently taking to alleviate the situation as well as we see demands coming in from many sectors. Even on the rural sector, you will find the demand trying to improve with some of the initiatives that the Government is trying to push through. Also the initiatives that the Government has launched like the *Atma Nirbhar Bharat* has also seen some stimulating effects in the recovery situation in the market and I am sure many of us in the market we are able to feel this stimulus. RBI on its side as well continues to make sure that they play their role in the revival of the economic growth, inflation still is a bit of a concern, but I am sure over the years as the sectors begin to recover on the demand front, inflation also will become manageable, so some of the sectors which I will talk about in my subsequent slide.

I move to the next slide and here you will see the sectors in the industrial space, which have started to recover and cement and steel for that matter, they have started to show recovery and as you can see, we have seen although cement was a little slow, but by September they have also started to recover and look at steel and you will find the trend is on the up right from May, the demand has started to pickup, so which is very strong because which is very good to see although they are not at the level of last year's performance, but surely the trend is in the right direction. Mining is one sector where we have seen good improvement and as you can see they are at last year's level of coal production. Energy is a clear indicator that the auto sector too has started to recover and here you see that the energy production in the country is also consistently from May started to move up, so overall there are mixed numbers which you see of various sectors at various speeds of recovery from the industrial space.

Now, if I were to just share with you on the next slide, I am on Slide Number 7, which is talking about the auto sector and what you see is the two and three wheeler sector, the graph clearly is showing an upward trend once the lockdown was taken away and you will see the month of September that two wheeler productions crossed over last year's September and almost 2.3 million vehicles were produced in this country when compared to 2 million of last year September, so while at an annualized level the growth will still appear to be down at about 35% at September level. Look at the commercial vehicles, this too has started to show gradual improvement, but still a long way to go because of those days where the production levels were phenomenally higher, we are still to see those days but nevertheless the trend is in the right direction, hopefully, it will sustain. Passenger vehicles on the other hand have shown a very strong recovery as you can see. Month after month right from June, they have started to recover phenomenally and that is something that we see a strong recovery from the passenger vehicles. Tractors on the other hand right from the time towards the end when the Government announced some of the alleviating measures, we have seen a consistent growth and robust growth in the tractor segment, much higher than even last year's performance is what you see.

On this backdrop, I would now come down to our performance in the market and for the third quarter and what you see here is the third quarter results, quarter-by-quarter split, the graph on the left side of the screen is the one which talks about quarter-by-quarter performance of 2019 and the graph on the right would be on the 2020 quarter-by-quarter and as you can seen for the third quarter of 2020, we were able to post sales of 1120.7 crores for the third quarter, which turned out to be the highest sales in the last six quarters. Also this was an increase of almost 20.7% over the first quarter 2020 sales for this year. Quarter-2 definitely is not a right reference point due to the 60 non-productive days that we have faced due to the lockdown, but even when you compare the performance with the third quarter of last year, we have still delivered 8.3% better performance when compared to Q3 of last year. Now, this clearly comes from couple of sectors automotive which has shown a good recovery I must say and some of the key customers in the passenger vehicle sectors had a very fast recovery and that has helped us to ride the wave as well. The tractor segment as I showed in my previous slide also continued to post strong production numbers and that too has helped us to capitalize on the opportunity of this recovery.

Moving on, if you see our performance on the automotive aftermarket as well registered the highest sales in the last seven quarters and a very strong performance of third quarter of last year as well, so almost all the three business verticals of automotive OE, the automotive aftermarket and the industrial vertical, all have performed better than the first quarter. I must add year that our industrial sector performance has been the strongest and it has done definitely much, much better performance than even the automotive OE and the aftermarket performance, so once the customers started their plans in June, the increase in demand from our customers went up so sharply and the demands were kind of double-digit growth month-on-month and we saw the same demands coming from the industrial sector, some of the industrial sectors were we saw very strong growth was the wind, the rail, even the two wheeler sector and the distribution business which is are the industrial aftermarket business, we saw good recovery happening in this quarter, hence we were able to capitalize on the strong demand. There were of course some challenges during this period of third quarter and the demand increase was pretty sharp, very fast and steep increase and also the demand increase came at a very short notice and the other thing is the type and 80 variety of changes in the demand was also pretty varied and that posed us challenges on our plans considering the fact that our plants had the challenges to man the operations as people were returning back from their own homes post the lockdown and workmen had gone to their hometowns, and once they come back, some of them had to be quarantined and not to mention the similar challenges that our supply partners faced in their own operations, so having said this while this definitely was a good opportunity and a pleasant opportunity to see the market recovering, it did pose its own set of challenges.

Also some of the geopolitical situations also created some new challenges in terms of sourcing as well as in terms of opportunities, in terms of demand shift from other country sources, so we began to see some new shoots of opportunities emerging due to the geopolitical situation as well. Having said that, the third quarter was certainly a quarter which was an acid test to our team and I must say we have responded brilliantly with high level of resilience, foresight, and high level of agility and the team clearly responded as one and hence you see the results in front of you.

Our sales mix for the nine-month period as it stands remains almost similar. We have a beautiful balance of industrial and automotive and as you can see, we also have about 10 percentage points of export business with us.

With this sales performance, I now come to the earning quality and what you see on this slide while the EBIT margin in the second quarter was a dismal 15.8% mainly coming on the backdrop of the 60 days of total shutdown, but coming into the third quarter with a strong recovery in the market plus the actions that we put in to manage our overhead spend expenses and the cost controls across the organization and we were happy and able to deliver an EBIT of 141.7 crores for the third quarter of 2020 and the EBIT margin stood at 12.6%. This happens to be a 51.7% higher EBIT margin than the first quarter of 2020 and also happens to be a much stronger EBIT margin than the Q3 of last year. With this, the year-to-date nine-month period EBIT margin stands at 6.7%, of course this is way below last year's margins which we delivered at 11.2 coming on the backdrop of the challenging performance in the second quarter of this year. This takes us the profit after tax to 113.5 crores and as you can see the profit after tax percentage is at 10.1% for the quarter and that happens to be a 44.8% better than the first quarter of 2020. Having said that, it is also a strong quarter wherein we have delivered 10.1% for the quarter and then at an year-to-date level, we stand at 6%, so fundamentally clear focus on the markets, opportunities, and managing of the resources that we had and the situation that we were in and very disciplined cost control measures have helped us to get us to where we are today.

With this, I move to the key performance indicators and what you see is in the column Q3 2020. As I said while the sales revenue grew almost 21% over the first quarter, year-on-year it was an 8.3% growth that we put up and the EBITDA margin for the quarter Q3 was healthy 17% as you can see resulting in an EBIT margin of 12.6% and when compared to the last quarter of last year which was at 10.1%, so fundamentally good performance in this quarter compared to the last quarter of 2019 on almost all the key parameters that you find here. With this, I will now take you to the launch which we did in the month of September of a new brand called TruPower. Now, this is a brand that we have launched in the automotive aftermarket space and the Schaeffler TruPower is backed with a big technical know-how coming in with lot of help from a German technology and the first product that we have brought out is the lubricating engine oil and there will be a series of products that we intend to roll out as we move forward. I must say with pride that within one month of its launch, we have seen tremendous response in the marketplace and we have taken care that we have launched this in 30 locations and the next target is to scale this up to 70 locations across the country, and the product is manufactured in India backed by German technology and we intend to also start to export this into the Asia-Pacific region going forward and going forward we will surely make announcement on the range of products that will come out under the TruPower brand and we have now targeted the oils fundamentally for the BS6 range of applications and happy to say that we have seen a tremendous response from the market.

Now, while we were actively working all these initiatives and trying to address the challenge of the market recovery, we had one important responsibility and that was the responsibility and care of our employees in a tough situation post the lockdown removal when people started getting back to work and offices, we had to make sure that safety and care was the primary priority here and we took in a lot of measures to ensure that we also play a key role in managing the pandemic at our workplaces, so as the days began to progress, we began to learn a lot of things from our customers as well as well as other business partners in the neighborhood. We began to have exchange of notes on what they were doing differently, so we had a lot of learning, cross learning which we began to implement as well and some of the glimpse is what we are showing here. We complied with the law stipulations stating what percentage of staff can come to the officers. We also maintain strict social distancing norms apart from using strictly these personal protective equipments that the employees have been given. We also got into a mood of preventive measures rather than reactive measures by introducing partitions wherever required as you can see transparent partitions provided so that minimizing every chance of people coming close to communicate with each other apart from the fact that we also started to take care by providing nutritional supplements. We went into modern technological use to assess people's health status as they come into the plants every day. We also had rigorous contact tracing systems in place, so that we are able to in case there are any confirmed active cases of COVID, we were able to trace back as to using this cluster management system that we had put in place. In addition to that, we ensured that we invested in additional infrastructure facilities to make sure that there was ease of day operations at the plant sites and in the offices, and this is something that will continue as we are yet to see the complete recovery from the COVID pandemic and we will continue to accord the highest safety to our employees at our place of work. With this, I come to the end of my presentation, I open the presentations for any questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ankur S. from HDFC Life Insurance. Please go ahead.

Ankur S.: Sir, Good Morning, thanks for your time, couple of questions; one, of this 1120 odd crores of sales that we did in Q3, if you could break this out into auto, industrial, and exports, for the numbers for this quarter?

Harsha Kadam: Can you repeat it, sorry.

Ankur S.: My question was of this 1120 crores of sales for Q3, if you could break it into how much was auto, industrial, and exports in absolute sales value, you know the presentation has the nine-month number?

Harsha Kadam: That is right, well we have given you on one of the slides a composition of the industrial and the automotive business, and clearly we have a pretty well balanced as you can see in almost 43% is the industrial business, which includes the industrial aftermarket and 47% is the automotive which includes the automotive aftermarket as well, so proportionately that is the ratio of businesses even in the third quarter as well, but what we have seen is our industrial growth has been definitely much higher than the automotive OE growth for this quarter.

Ankur S.: Sir, any numbers you can share alternatively on what was the auto growth and the industrial growth for the quarter?

Harsha Kadam: Not at this moment.

Ankur S.: Sir, secondly if you could just talk about the demand environment currently so you did speak about strong growth, last quarter was very strong and we have seen good wholesale numbers from the auto OEMs as well, so when you look at October is almost over, so when you look at the next quarter, you would have had the production schedules hopefully for the coming couple of months, how are they looking, are you equally optimistic in Q4 as well?

Harsha Kadam: As you know this quarter, the months of October-November happened to be festival seasons in India and normally demand peaks up in October and then begins to taper off particularly with some of the sectors, definitely we will see this happening. However, this year coming on the backdrop of almost 60 days of total stoppage of the economy in the country and it is like the country is now kind of unleashed, so we see the initial growth, the demand recovery in the third quarter has been pretty good and some of the sector indicators that we see also will continue to show stronger demand in the coming months as well in spite of the fact that these are November and December are slightly slower months, but we expect sectors like the tractors industry still continuing to see stronger demand coming in. Now, coming to the other sector like passenger vehicles, we will have to only wait and watch how the market will do. As I said, we would like to approach the market with very cautious optimism.

Ankur S.: Fair, and just on that Sir we have heard of some price hikes being announced by Schaeffler during October, so is that correct and would it be possible to quantify what kind of price hike do you see?

Harsha Kadam: Well that is a normal annual price hike which we normally do, it was only in one of the sectors that we do in the distribution business of industrial that was planned and scheduled and it was done accordingly.

Ankur S.: Okay, Sir secondly on the export side I remember last quarter you had spoken about some opportunities in South East Asia, even in your opening comments you did mention that there are some new opportunities opening up, so if you could just talk about, so your exports are at that 9%-10% number, how do you see that growing, any new development which you can talk about on the export side, please?

Harsha Kadam: While export is as I showed in my slide, it is 10% of our total sales turnover and yes we are looking at Asia as a market to grow. We have started to look at lot of opportunities. I must also share with you the market sentiment currently there coming out of the COVID situation as you can see, India has gone through its first wave of peak down, will there be many more waves in India, we do not know but we have definitely seen similar waves repeating in some of the Southeast Asian and Asia Pacific countries, now with that the market sentiments and currently in the Asia Pacific market outside of India has been a little weak, while yes the opportunity still exist, the market has to pick up there. We are definitely watching and we will be building on this growth story of our export business. If you were to see the export performance in the Q3 or performance when compared to last quarter, last year Q3 was not so good either. We had a weak demand situation both from Asia as well as from the Western Europe region. As you know, Europe was going through the tough situation during the COVID crisis, so with that definitely as the market start to recover we will gear up and we are gearing up for the export business to grow there.

Ankur S.: Just last question on the aftermarket, if you could talk about each of the auto and the industrial aftermarket, the kind of growth you see in Q3 and how is that sustaining as well in the current quarter?

Harsha Kadam: If I compare our Q3 performance over the Q1 2020 performance, all the business verticals have delivered a double digit growth, which is pretty strong I must say, so all the business verticals of automotive OE, the automotive aftermarket, the industrial OE, and the industrial aftermarket have delivered a double digit growth.

Moderator: Thank you. The next question is from the line of Nishit Jalan from Axis Capital. Please go ahead.

Nishit Jalan: Sir, thank you for the opportunity and congratulations on good set of numbers, Sir I have two questions, firstly on the auto side have we seen any market share gain of content increase also in the last couple of quarters because specifically in this quarter seems like our automotive segment revenues have grown at a higher pace and the growth in production of OEMs or we are seeing some inventory buildup happening or being done by OEMs because so is that they are prepared if there are any supply disruptions, I just do not understand what has led to our stronger automotive growth for us compared to the industry production that we had seen?

Harsha Kadam: Thank you Mr. Jalan for this question and as I had shared in my earlier calls as well that we have been focusing and working to develop and bring new products for the BS6 applications in the automotive space, which we have been able to increase those offerings during this quarter. Having said that, yes, that obviously has resulted in an increase in content per vehicle, which has started to move up. Initially yes, we had to import the items and supply to our customers here as we had still to localize a lot of products, but our localization plan is exactly now going as per the way we want it to go. We have leveraged the shift that happened and we are now ready with the gasoline engine products as well. Now, whether we have gained market share, well I guess it is too early to say that because I do not have the relevant numbers to tell you that, but however, I can assure you that we are back in the race with our gasoline engine products as well.

Nishit Jalan: Sir, if you can throw some light into what kind of products are we talking about, are we talking about a double-mass flywheel kind of products or which other typical products there we have seen increase localization and increased content post BS6?

Harsha Kadam: Let me first talk to you about the three broad applications in the automotive, the engine systems, the transmission systems, and also the chassis systems, and what we saw in this quarter was our performance has been pretty strong in all the three applications. The engine systems we did very good performance, the growth was phenomenally higher compared to the previous quarter as well as in the transmission systems which happens to be where the main product line happens to be the clutch and obviously the clutch performance was strong because of the demand consistently in higher demand in the tractor sector, so having said that all the three applications we have been able to do. Coming to the engine applications, which is more gasoline relevant in today's context when it comes to the passenger vehicle sector, well we have been able to increase our offerings in the engine components part, some in the valve train system as well. In the damper systems, we have been able to increase our offerings as well as if you take some of the belt and chain drives we have been able to increase, so there are variety of products, yes the flywheels as well as the clutches is another part, but consistently as we say our strength lies in innovating products for the engine applications and we will continue to leverage on that and we have done that Q3. What we have seen the performance is giving up the confidence that yes we are on the right track.

Nishit Jalan: Sir, just a follow up, will it be able to give us a rough split of your revenues regarding autos between engine, transmission, and chassis, like I have seen these numbers are shared in your Schaeffler Group globally, so just wanted to get a sense as to where we are in India and in each of the sub-segments?

Harsha Kadam: I do not have the numbers right now here.

Nishit Jalan: My second and last question is on CAPEX, we were one of the few companies who did not defer on CAPEX despite our COVID-led situation, so just wanted to understand, how much of the CAPEX are we doing to kind of increase capacity and how much of it is because of the localization that you are talking about as there are certain products which you were importing earlier and selling in the market and you were starting localization for that, so while your CAPEX is complete, what kind of top line can you achieve with the kind of capacity you have, so just wanted some color on that?

Satish Patel: Thank you for the question, large amount of our CAPEX is towards capacity expansion, so I would say over 70% of the CAPEX is towards capacity expansion. We do have CAPEX for localization, but that has also an element of the capacity, quality, and the technology, so to a certain extent there is sort of overlap between the localization CAPEX which has also an element of capacity in the CAPEX which is entirely for capacity, but I can confirm that a large amount of our CAPEX is towards capacity. We have done that over last one year, and therefore, even in this quarter when there was a sudden demand spurt and that happened at a very short notice, we could actually fulfill the market expectations and the market requirements because we were ready. That is what I would say that the CAPEX is towards mainly towards the capacity expansion.

Nishit Jalan: Sir, any numbers you can share as to what kind of manufacturing revenues you can achieve once your bigger CAPEX plans are over this year or next year?

Satish Patel: We had also mentioned I think couple of quarters before that we have a localization strategy, we have a plan to localize and increase the depth of production. We are at around 70% localization currently and our strategy is to reach little over 75%, so in next three to four years, yes, from the level we are which is 70%, we would move close to 75% so the manufacturing debt will increase and the localization would help bring that, so currently we are at around 70 as I said that would significantly go up in a few years.

Moderator: Thank you. The next question is from the line of Sandeep Tulsiyan from JM Financial. Please go ahead.

Sandeep Tulsiyan: Good Morning Sir, I have two or three questions, firstly would like to understand in Railways what is the current portion of Railways at the percentage of our total sales currently and within that, what is the current mix between passengers, freight wagons, locos, and metros, if we have been supplying to them?

Harsha Kadam: Thank Sandeep for the question. Our railway business in the total industrial part of the business, we should be around 11% to 12% of our business. I do not have the split within that between passengers and freight, so all I can say is that…

Sandeep Tulsiyan: Any ballpark if you can provide, not exact numbers, broadly what constitutes the bulk and are there any supply towards Metro projects?

Harsha Kadam: Okay, we are kind of fairly evenly spread between the railway and the Metro applications. Lot of the Metro application of course apart from the domestic consumption here is also going out of India because we are working with customers who export their products fitted with our products, and so Metro a lot of it goes out of India, so when it comes to our business, our presence is I must say pretty strong on the Metro side as well. Railways, we are now bringing in more product range so that we want to grow the market share in the railway sector.

Sandeep Tulsiyan: Second question is pertaining to the cost savings that we had program that we had rolled out since volumes are now coming back, how much of these cost savings do you expect to be more sustainable and how much of it should revert back to the earlier levels?

Satish Patel: It is a good question, difficult to answer but let me attempt, so this year we have focused mainly on the countermeasures, and therefore, the word countermeasure we use than cost savings because we were affected significantly because of the lockdown and the manufacturing industry like us with high capital intensive investments, if the plants have to shut for two to three months, I think it is a major blow on the performance, so what we immediately acted upon was on the countermeasures, we took the countermeasure, divided into 41:42.6 _____, what are the next level, what are the hard cut, and most of them have been realized and we are quite sure that those would continue in this entire year. Now, as far as your question is concerned that how much of this would be sustained, how much would not be, yes, there are certain element of the hard cut in the cost in these countermeasures, so it would be difficult to sustain because those are one-time in nature, those are mainly related to salaries and wages, however, yes, there are cost savings which would be sustained because those we have excess rolled out in the form of our continuous cost saving programs, those are the logistics cost saving, those are related to the services, related to the programs in the plant for lean production like MOVE Program and the fit-for-quality program, localization, so all those projects are sustainable, but there are certain specific savings for this year which are in the form of hard cut, yes, those will not be there, but we do not expect that to be very significant impacting the performance going forward, significantly adversely.

Sandeep Tulsiyan: Understood, last question is on the content per vehicle, you did mention that you have seen an increase from third quarter itself, just want to ask if you can quantify how much was the content per vehicle in passenger cars prior to the BS6 transition and how much is it now after the transition is complete?

Harsha Kadam: I have shared this that earlier our content per vehicle was around € 37 per vehicle, Rs. 3600 to Rs. 3700. From there, I must say that we have started to move up, our content per vehicle value is definitely higher now. We have a plan of taking this up beyond Rs. 4700 per vehicle, so we are well on the path where we are clearly our actions have started to show the results. There is a very clear plan made how we want to increase the content per vehicle. We have to stay on this course, of course that would get addressed by way of even localization as well ultimately because that is one of the biggest drivers as well for us. We have to make the product in India to remain competitive, so rightfully we are definitely moving up. I am not able to share the number with you, sorry for that, but then currently yes, third quarter we have started to see an improvement in our content per vehicle.

Sandeep Tulsiyan: Just a clarification Sir, this is for gasoline or for diesel or is it average number that you share?

Harsha Kadam: That was the average number before, before the shift from BS4 to BS6 happened.

Moderator: Thank you. The next question is from the line of Deepesh Agarwal from UTI Asset Management. Please go ahead.

Deepesh Agarwal: Good Morning Gentlemen, my first question is can you help us understand what proportion of your top line growth was contributed by content increase under BS6, can you help us quantify that?

Harsha Kadam: I do not have the data ready, as I said we are still collating the information as such to know the content per vehicle, so to relate that with the top line increase I do not have the answer to that right now.

Deepesh Agarwal: Sir, secondly how confident are you of maintaining the 3Q margin given that some of the cost which we would have under the COVID would be coming back in the forthcoming quarters?

Satish Patel: If I understand your question correctly that how much of this would still be sustaining in Quarter-4 and how much of the COVID cost will come back, I am understanding correct, right so yes in Q2 particularly not so much in Q3, but in Q2 we had incurred certain COVID costs and those are the costs of ramp up, the cost for logistics and warehousing because the entire transportation network was affected and the costs on the health and safety. In Quarter-3, those costs are significantly lower because the operation is resumed to normalcy, so the logistics network cost was low, was not there in Quarter-3 which was significantly there in Quarter-2 and similarly the other cost also was not, that is the only cost that we had to continue was on the safety and health, that would probably also continue in Quarter-4 because the situation is not very, very normal, but I would say that is not very significant.

Deepesh Agarwal: Sir, my last question is it is a little longest question on your long-term profitability, if I compute your gross margin on manufactured goods using your annual report disclosures, it feels that over last say seven or eight years, your gross margin on manufactured goods has been in the range of say 43 to 48 kind of a percentage. However, when I compare the same with your listed MNC peers, they are making roughly almost like 55% plus kind of a gross margin on a manufactured goods, so want to understand is it that our products by the nature of structures are lower manufacturing margin or there is a huge room for us to catch up with peers on the manufacturing margin?

Satish Patel: I think for me difficult to first of all understand this percentage that you mentioned because my own yield is lower than 50%, it would even be lower than 45% because even with the localization plans and even with the sustainable cost improvement plans, you cannot earn so significantly on manufacturing. As you know and as you have seen that our business is balanced, automotive and industrial. Had it been only one then yes, there is a particular let us say trend of the manufacturing margin development, but when you have both the businesses to balance and to grow margins significantly is not negatively, but at the same time I would say that for me also, it is difficult to believe that other can earn so significantly over 50% margin on manufacturing, maybe when you look at the analysis in annual report, I think one caution is that what you do not see for the trading businesses beyond material cost, but the trading is required significant logistics cost, the inventory warehousing, the service cost, quality cost, so this costs are not clearly visible in annual report, so making a calculation and then transferring entire margin to manufacturing would not give I would say or would give this picture, so that is the question.

Moderator: Thank you. The next question is from the line of Parthiv Shah from Tracom Stock Brokers. Please go ahead.

Parthiv Shah: Thank you Sir for taking my question and thank you for your presentation, Sir my question is regarding your launch of the lubricant range, TruPower, in fact we understand the rationale because it is already a very crowded space where a huge market leaders having very strong distributor and dealership network, so how do we intend to penetrate in this crowded market and what you see this business contributing to in terms of longer Schaeffler wealth creation?

Harsha Kadam: As I said in my presentation, the automotive aftermarket is one of the sectors that we have increased or focused and one step in that direction is to launch the TruPower brand of Schaeffler and the launch of the lubricant oil is the first step in that direction. Our plan strategically is to bring in more products not necessarily lubricants, but it can go beyond lubricants as well going forward and you will see and hear more of it as we bring these products into the marketplace. Coming to lubricants, to your question on why what is the relevance, I would say a bearing is a product that obviously has to work with a good lubrication system and good lubricant is at the heart of a bearing performance as well, so having said that, we believe that in India, the market is waking up to changing expectations in terms of reliability of the product one buys as well as performance of the product, so having said our customer's expectations when they go up, it makes sense that we also start to extend the value chain thereby they get the confidence not just from the product we were selling, now there are products which actually ensure that the product we were selling performs better, they are more reliable as well. This builds the confidence with the customer about the brand, so that is where we stepped in to see that yes there is an opportunity here to add value to the market and in the process make some gain as well, so how big will this business grow in to, we do not have the plans right now, but we have started to work on net and as I said we have just launched this in the month of September, but we have seen a tremendous response within the one month strong order books coming our way and as I said, we also have a gamut of products that will be launched under the TruPower brand.

Parthiv Shah: Sir, if you can throw some light in terms of few examples as to what sort of other complimentary products that the aftermarket space do you intend, what is your pipelines are looking like?

Harsha Kadam: Well, obviously it being an automotive aftermarket space, we are already dealing with applications that we manufacture for the OE segment are available in its portfolio for the automotive aftermarket, so lubricant is an additional product that we bring which enables our products to perform better and going forward you will certainly see that we will get into non-lubricant space as well and we would look at different models of doing the business as well, different channels of distribution would emerge as well, so right now I am not in a position to share with you specific products that we would bring into the market, but as I said you will hear and see them soon.

Parthiv Shah: Sir, despite the fact that it is a very, very small market but there is a lot of interesting talk about electric vehicle, so if you could throw some light as to whether your parent or even the Indian arm, what sort of pipeline you are looking for in the electric vehicle segment and in India whatever electric vehicles are being sold, have we contributed anything in terms of the components over there?

Harsha Kadam: Let me answer that in two parts, the first part is, is Schaeffler ready for the electric vehicle technology that is emerging in India, my answer is yes, we do have it. Our parent company has strong credentials in the EV market having worked with some of the marquee brands in Europe and consistently making strategic acquisitions along the way to stay competitive both from a technology and the business economics point of view, so strategic acquisitions are being made.

They have been done in the last five years in the area of EV technology, so it is not just in the drive mechanism, it is also in the transmission mechanism and now acquisitions are being made in the electronics and the control system mechanism, so it is the entire value chain that we have looked up to make those strategic acquisitions, so having said that so the inherent requirement required knowledge capital is already there with us, so it is a question of adapting that knowledge capital what we have in our parent company and bring it to India to see how can we customize these to Indian needs is all that we have to do.

Coming to the Indian market, which is the second part of my answer to your question, you will see that some of the technologies that are being rolled out predominantly is coming out of the two wheeler market space, they were the first adopters of this technology and when you look at the technology that is there, they are pretty even I would say rudimentary so to say and again if you see the ownership cost of the vehicles today as being so prohibitively high hence you do not see an explosive growth in the two wheeler market space of electric vehicle as it happened in some other parts of the world, so having said that the Government policies and the affordability becomes some determining factor here as well. All I can say is that when the market begins to grow, certainly we are in a position to also invest and bring those technologies in India. Now, does not mean that we are sitting idle, we are now working with two of our customers here to bring our solutions to their transmission systems for the electric vehicles and I must say these are projects that are being run with our customers today and they are at various stages of development and validation and as the volumes pick up, the market picks up very soon. We will be playing the game in the electric vehicle technology as well.

Moderator: Thank you. Ladies and Gentlemen, due to time constraints that was the last question. I now hand the conference over to Mr. Vijay Chaudhury for closing comments.

Vijay Chaudhury: Thank you so much, Ladies and Gentlemen, Management has pressing commitments so we will have to stick to this timing of one hour. Thank you so much for participating in our calls and should you have any further queries, please do get in touch with me over the email that is, vijay.chaudhury@schaeffler.com. Thank you and have a great day ahead.

Moderator: Thank you. On behalf of Schaeffler India Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.